



Photo by Christine Germino
Kearney, Chicago



Plant-based protein: parity on the horizon



KEARNEY

Better-tasting products and greater consumer acceptance are fueling the demand for plant-based protein. Cost remains an issue, but price relief is in sight.

The present and future of plant-based meats, defined here as manufactured food products specifically designed to replace animal-derived options, is like the action on a Roller Derby rink—volatile, with exciting victories gained at the cost of some painful bumps. And, like a Roller Derby audience, the category's critics and supporters are loud, engaged, and passionate.

Whichever side you're on, it's easy to agree that [the eventual fate of all plant-based meats](#) centers on four factors: profitability up and down the supply chain, price, taste, and—most importantly—consumer acceptance. But the category won't achieve its full potential until alternative protein products reach price parity with animal-sourced products. That, it turns out, just might happen sooner than some skeptics believe. Kearney research and analysis finds plant-based meat alternatives to be highly elastic: a 1 percent decrease in price yields a 3 percent increase in market share.

Let's look at what's happening in the category today.

The plant-based meats category won't achieve its full potential until alternative protein products reach price parity with animal-sourced products.

Demand: the numbers look good, but the track still has some curves

Plant-based food retail sales continued to explode throughout the pandemic, according to SPINS data. Retail dollar sales grew by 27 percent in 2021, reaching about \$7 billion. A [study](#) conducted by The Good Food Institute found that at peak in 2020, 57 percent of all US households purchased plant-based meats.

Plant-based meat items saw massive growth throughout 2020 and into 2021, rising by 45 percent and 11 percent respectively, but [consumers indicated that price is still a barrier](#). Plant-based meat reached \$1.4 billion in sales, constituting 2.7 percent of all US retail packaged meat sales in 2021. Growth in 2021 was powered by a 43 percent increase in households that purchased [alternative meat](#).

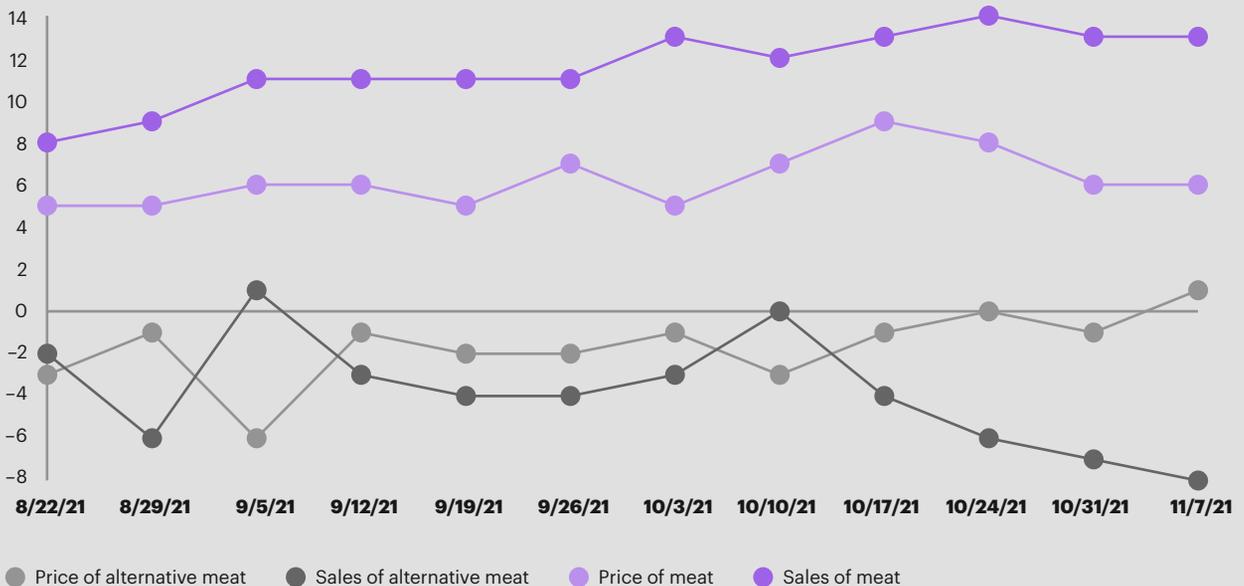
Price isn't the only issue, of course. It turns out that, despite all the trend data indicating that consumers want healthier diets, changing consumer habits takes much longer than some expected. Flexitarians—about 42 percent of global consumers—and pescatarians, for example, aren't totally eliminating meat. Eighty-five percent of consumers who purchase plant-based meat also purchase processed animal-based meat.

As in any emerging food category, trial is easier to get than repeat, which, in the case of plant-based meats, is slowing. The "why" behind the numbers is harder to pin down. Some trade observers believe this may indicate some of the novelty has worn off for early adopters and so consumer demand may be normalizing to a steady state. It could also be that mass conversion from tofu and tempeh to plant-based meats for traditional vegetarians and vegans—the products' most natural consumer market—has reached its peak.

Late 2021 saw plant-based meat sales slow even with dramatic price drops from major players, contrary to the peak it hit during mid-2020 (see figure 1).

Figure 1
In late 2021, sales of plant-based meats slowed despite price drops

Change in price and demand compared to same week in 2020 (%)



Sources: IRI; Kearney analysis

Supply: watch out, the big guns are entering the game

Large animal processors including Tyson, JBS, Unilever, and Smithfield are investing heavily in the alternative protein sector to expedite the R&D processes, transforming themselves into protein companies, not meat companies. For those efforts to pan out, they have to actively communicate with traditional meat merchandisers; otherwise, they won't be able to get shelf and cooler space for their products.

Taste isn't the only driver of consumer preference. There's growing consumer awareness of, and resistance to, issues around cruelty. Consumers are also becoming conscious of their individual greenhouse footprint contribution, making them more receptive to food products sourced from plants rather than animals. This [growing awareness of environmental issues](#) will encourage long-term dietary change, especially as macro events related to climate change continue to spur consumer interest in the alternative food space, and authorities from the media and celebrities to nutritionists and ecologists are encouraging consumer shift. Looking forward, consumers are projected to become even more selective in their [food habits](#) to avoid severe health issues.

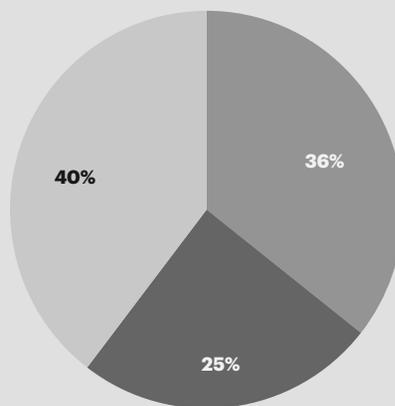
Equal talent doesn't guarantee a win; the numbers have to work

Prices for plant-based "like meat" alternatives are 50 to 300 percent higher at retail—still above the acceptability range (see figure 2). Economics is as big an issue in the market as it is in the supermarket. Some investors are reportedly worried by recent news highlighting poor performance from companies such as Beyond Meat and Greenleaf. Lowering the price is hard, especially for venture-backed companies that—because of constant shareholder demands for returns—find themselves forced to maintain higher price points while continually investing in R&D.

The financial glass, however, is at least half full. Among the tailwinds promising some price relief, food processing costs have allowed plant-based meat to achieve conversion cost parity. The expense of paying back R&D and marketing costs is seen as the true cause of high prices, and it's been possible to produce meat alternatives at conversion cost parity for some time.

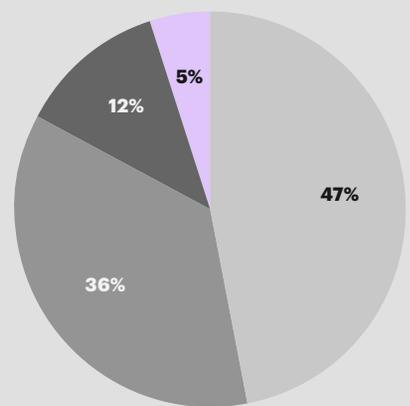
Figure 2
Price is still a primary barrier to consumer adoption

How likely are you to purchase plant-based product alternatives (e.g. plant-based dairy substitute, plant-based apparel, etc.) in the next 12 months?



- Very
- Somewhat
- Not at all

If not at all likely, because they ...



- Don't taste good
- Are more expensive
- Offer worse nutrition
- Are worse for the environment

Note: n = 1,000
Source: Kearney analysis

This has enabled retailers and private-label producers such as Simple Truth, Aldi, and President's Choice, which have lower marketing costs and reduced R&D spending as well as scaled production capacity and high-volume distribution, to offer products that the average consumer will see as more affordable.

Meanwhile, because of inflation, the cost of animal-sourced protein is beginning to climb, especially compared with plant-based meats that have yet to see inflationary pressures. Prices of traditional meats are up more than 10 percent relative to the same time last year, while the price of meat alternatives is lower than it was this time last year.

Major plant-based meat industry players are closer to price parity than many retailers think and are making significant strides in this direction. Last year, Impossible Foods, for example, dropped prices by 15 to 20 percent, and Beyond Meat announced it aims to underprice animal protein in at least one category by 2024.

How is this possible? The answer is price elasticity.

Elasticity is the fastest path to solidity

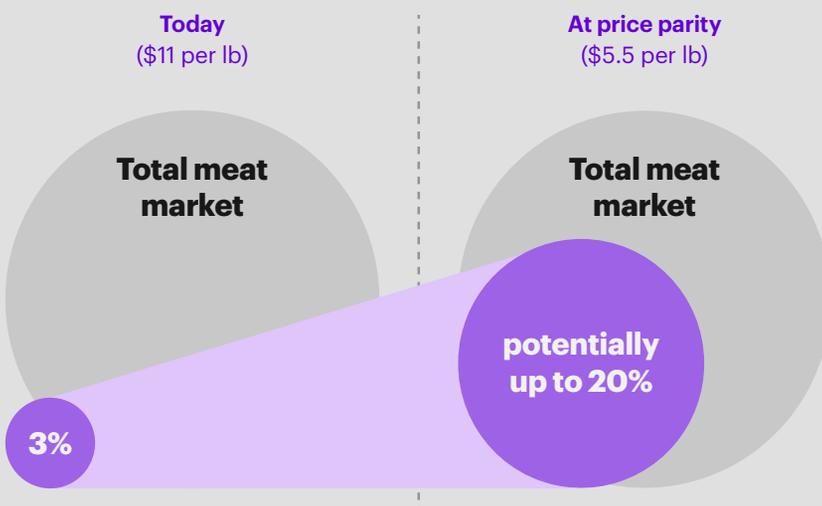
Plant-based meat alternatives are highly elastic. Kearney modeled the own-price elasticity of plant-based protein products and the cross-price elasticity of plant-based protein products with ground beef and chicken. The analysis was informed by data collected by Dr. Jayson Lusk over a months-long survey of consumer meat consumption patterns.

A 1 percent decrease in price has shown a 3 percent increase in market share of plant-based patties. The implications of this for traditional animal proteins are clear and significant. With this data Kearney estimates that at price parity some plant-based meat subcategories could potentially achieve up to 20 percent of category share (see figure 3).

Figure 3

Plant-based meat products are elastic; achieving price parity may expand some subcategory market shares up to 20%

Market share implications at price parity
(assuming -1% price yields +3% market share)



Sources: Dr. Jason Lusk, Unsplash; Kearney analysis

What happens after what comes next?

Once price parity is achieved, the entire industry needs to rethink its position on plant-based meat.

For retailers today, the plant-based market represents a small share, but that will change over the next few years, so developing a proactive and comprehensive protein category strategy will be mandatory for success.

It's past time that the walls of protein silos came tumbling down. Old-style meat merchandisers need to learn to see plant-based proteins as an ally instead of the enemy and find ways to work alongside plant-based meat merchandisers as one team rather than as last-line defenders of the butcher case. Today's conventional meat category representatives have a stronger in-store influence, but they need to use it to help bring plant-based alternatives along as part of a complete portfolio of protein offerings.

For plant-based suppliers, taste and price parity continue to be the top innovation priorities. Current data proves sacrificing margin to reduce price in the short term will have long-term benefits in the form of increased volume.

As we noted earlier, traditional animal protein suppliers will have to facilitate strategies between status quo old-guard meat-department thinking and plant-based protein producers' push to grow the category before their own plant-based alternatives can get shelf and cooler space.

Finally, for investors, investments focused on increasing processing capacity, [supply chain efficiency](#), and infrastructure should be balanced with R&D investments in taste.

Before plant-based meats are in a position to reach their full potential, every link in the protein supply chain needs to focus on long-term growth rather than short-term profits. At the current rate, it may take plant-based proteins five to seven years to reach price parity, but there's no reason why that timeline can't be shortened if manufacturers and retailers can agree to put consumer needs and preferences ahead of margin.

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